

WASHINGTON STATE INVESTMENT BOARD
Administrative Committee Meeting Minutes
January 19, 2006

The Administrative Committee met in open session at 8:31 a.m. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive SW, Olympia, Washington.

Committee Members Present: Patrick McElligott, Chair
Debbie Brookman, Vice Chair
Glenn Gorton
George Masten
Treasurer Mike Murphy

Other Members Present: David Nierenberg

Others Present: Joe Dear, Executive Director
Theresa Whitmarsh, Deputy Director for Operations
Kristi Walters, Executive Assistant
Paul Silver, Assistant Attorney General

[Names of other individuals attending the meeting are not included in the minutes, but are listed in the permanent record.]

Chair McElligott called the meeting to order and identified members present.

ADOPTION OF MINUTES – NOVEMBER 17 AND DECEMBER 15, 2005

Treasurer Murphy moved to adopt the December 15, 2005, Administrative Committee minutes. Vice Chair Brookman seconded and the motion carried unanimously.

Mr. Gorton moved to adopt the November 17, 2005, Administrative Committee minutes. Vice Chair Brookman seconded and the motion carried unanimously.

EXECUTIVE DIRECTOR EVALUATION

Chair McElligott called the Committee into executive session at 8:32 a.m. He said the purpose was to discuss the performance of a public employee. Chair McElligott said the executive session was expected to last 15 minutes.

[The executive session concluded at 8:47 a.m. and the open session reconvened immediately thereafter.]

Mr. Gorton moved that the Administrative Committee forward the executive director's evaluation to the Board for discussion.
Vice Chair Brookman seconded and the motion carried unanimously.

2006 STRATEGIC INITIATIVES

Mr. Dear introduced the 2006 strategic initiatives noting that this is the third year that the agency had gone through this project planning process. He reviewed the Board's mission, its fiduciary duty, and the five key drivers that feed into principle WSIB functions, which are strategic asset allocation; identifying, evaluating, and implementing investment ideas; selecting great managers, and constructing and managing portfolios.

Three strategic themes were identified for 2006: rigorously focusing on investment performance and decision making; achieving exemplary governance; and developing, inspiring, and supporting people who are passionate about investment management.

[Mr. Nierenberg was in attendance at 8:53 a.m.]

Mr. Dear said that staff had developed projects around the three themes. For focusing on investment performance and decision making, staff plans to adopt a best practices framework for the Private Equity program. McKinsey & Company, United States, will be used as a consultant on the project and results are expected this spring. Staff plans to establish a centralized research function. The desire is to create a more curious organization. One of the significant activities of this project is to build a data warehouse which will be the major information technology project for the year. Staff plans to examine its investment beliefs and develop a statement of principles and beliefs, with consulting assistance from Cortex Applied Research. If it proves to be a valuable exercise, the Board involvement will be added next year. Staff plans to implement Innovation Portfolio fund opportunities. Infrastructure, currency, and commodities will be examined first. In response to Treasurer Murphy's question, Mr. Dear said that infrastructure could include toll roads, power plants, airports, etc. Treasurer Murphy said that staff should exercise due caution with infrastructure. He asked to be involved in discussions of these opportunities, as well as currency hedging. Mr. Dear said that staff would check in with him. Finally, staff plans to develop an investment product review process to plan operationally for new investment vehicles to systematize how new products are put into place.

With respect to governance activities, staff plans to have the Board review select policies and charters with assistance from Cortex Applied Research and conduct an internal Board governance review at the July meeting. Staff plans to continue to improve the Board education program, with a focus in 2006 on risk, investment beliefs, performance, corporate governance, strategy, and sessions on specific asset classes.

Treasurer Murphy reported that the National Association of State Treasurers is getting focused on executive compensation issues. He said that instances where we can partner with others, including large public and labor pension systems, would be helpful.

Mr. Dear said that other governance projects include expansion of enterprise risk management (ERM) by adopting control framework from the Committee of Sponsoring Organizations of the Treadway Commission, also known as COSO. Staff plans to obtain an independent audit of its 2006 financials and apply Sarbanes Oxley Section 404 to financial reporting, where applicable. Treasurer Murphy said he believes the framework is in place for an independent audit and said

OST used Peterson Sullivan and was satisfied with their diligence, independence, and ability to work with staff. He said that having agreement for an independent audit with the State Auditor's Office is key so that work papers can be shared. Members cautioned Mr. Dear to be mindful of the expense and time involved in seeking voluntary compliance with Section 404. In response to Mr. Masten's question, Mr. Dear said the advantage to the WSIB is to assure interested parties that the agency operates at the highest level of integrity and goes above and beyond with regard to compliance. Ms. Whitmarsh reported that the cost of the independent audit is estimated at \$50,000. Mr. Silver noted that creditors look for independent audits.

Mr. Dear said that staff plans to do targeted recruitments to find the best employees for new positions; conduct manager/supervisory training to equip managers to guide and support their staff; and focus on retaining existing staff through appropriate compensation, training, promotion, and recognition programs.

RECOMMENDED CONFERENCES 2006-2007

Chair McElligott noted the list of recommended conferences for 2006-2007 in the Committee packet.

Mr. Masten moved that the Administrative Committee recommend that the Board accept the 2006-2007 Recommended Conference list. Mr. Gorton seconded the motion.

In response to Treasurer Murphy's question, Mr. Dear said that the Board Chair must approve the travel. He noted that the Board Education Policy was initially written so that recommended conferences would not require further approval, but the Board later changed the policy to require the Board Chair's signature. Treasurer Murphy said that he felt that it was redundant for the Board to approve the conference listing if requests still must be approved by the Chair. He asked to have the Board Education Policy included in this year's policy review. It was noted that requests to attend conferences not on the list are also accepted.

The above motion carried unanimously.

OTHER ITEMS

There was no further business to come before the Committee. The meeting adjourned at 9:29 a.m.